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TAGS: [EFIN](#) [PREL](#) [KWBG](#) [IS](#) [ECONOMY](#) [AND](#) [FINANCE](#) [GAZA](#) [DISENGAGEMENT](#)

SUBJECT: KNESSET FINANCE COMMITTEE CHAIR BRIEFS AMBASSADOR
ON ECONOMIC ISSUES

Classified By: Ambassador Daniel C. Kurtzer for Reasons 1.4 (b,d)

11. (C) Summary. Knesset Finance Committee chair Yaakov Litzman discussed Israeli economic and political developments with the Ambassador May 9. Litzman highlighted the difficult budgetary situation created by disengagement, noting that his committee had failed to agree that day on approving legislation funding equipment needed for IDF personnel involved in the withdrawal of Gaza settlements. (Note: This legislation was finally approved May 10. End Note). Litzman claimed to be concerned about the GOI's concurrent push on disengagement and economic reform, stating that this was undermining popular support for PM Sharon and the Likud when both needed it most. The Ambassador raised USG concern over settlement expansion, noting that funds saved here could pay for disengagement. The Ambassador also raised recent GOI procurement decisions where U.S. companies had been disadvantaged. End Summary.

Ambassador Expresses Concern over Settlements

12. (C) In response to Litzman's expression of concern over how the GOI could fund disengagement, the Ambassador noted that the GOI and the Knesset could find the required funds by reducing settlement expenditures. In fact, the Ambassador added, settlement expenses potentially cost the GOI twice, since the USG was supposed to deduct an amount equal to settlement expenditures from the amount of loan guarantees provided under the 2003 Loan Guarantee Agreement. Settlement expansion also ran directly against USG policy and was thus an irritant in U.S.-Israeli relations.

Litzman: Don't Hit the People with Both Fists

13. (C) Litzman turned to the subject of disengagement, noting the GOI was making a mistake in pushing economic reform and disengagement at the same time. "You can't hit people on both the economic and the security front at the same time. It's too much." Litzman expressed concern about disengagement's chances of success: "No one knows what will happen with disengagement. This is not Yamit," he said, referring to Israel's evacuation of Sinai in the early 1980s. Litzman enumerated cuts made under recent budgets, including to funds going to the poor, to the elderly, and to the ultra-religious. All these unpopular actions, Litzman claimed, were costing the Likud dearly exactly at the time it needed the people's support. The only reason the government was not under more serious threat was because the Labor Party was itself so badly split. "But who knows what will happen in the next elections? Perhaps Likud will break up."

Tax Reform? Unlikely, Litzman Says, Unless the USG Helps

14. (C) In response to a question by the Ambassador about the potential for further tax cuts by the government, Litzman replied that he doubted further reforms would be introduced. "Disengagement costs too much," Litzman said, "and the government has no margin to pay for further tax cuts." On the other hand, the GOI could afford both disengagement and tax cuts if the USG were to "chip in" by increasing its assistance levels to Israel. Increased assistance would also help lessen the pain of disengagement, Litzman noted. The Ambassador reminded Litzman of the current level of USG assistance.

Commercial Issues

15. (C) The Ambassador raised U.S. concern over bilateral commercial relations. He noted the increasing U.S. trade deficit with Israel, and enumerated some specific instances of counterproductive Israeli actions. He told Litzman of the GOI decision to purchase a non-USG scanner for the Haifa port, in spite of the funding coming from U.S. FMF funds. This was not acceptable. The Ambassador also noted the GOI's decision not to purchase refurbished stock from a U.S. firm for its new train lines, in spite of the low cost of the U.S. equipment. Litzman did not respond.

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KURTZER